

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Southern California Gas
Company (U904G) and San Diego Gas &
Electric Company (U902G) for Authority to
Revise their Curtailment Procedures

Application 15-06-020
(Filed June 26, 2015)

**RESPONSE OF SOUTHERN CALIFORNIA GAS COMPANY (U 904 G) AND
SAN DIEGO GAS & ELECTRIC COMPANY (U 902 G) TO THE MOTION OF
SOUTHERN CALIFORNIA EDISON COMPANY ON BEHALF OF THE CUSTOMER
COALITION FOR CONSIDERATION OF WINTER RELIABILITY MEASURES**

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COALITION FOR CONSIDERATION OF WINTER RELIABILITY MEASURES**

I. INTRODUCTION

In accordance with Rule 11.1(e) of the Commission’s Rules of Practice and Procedure, Southern California Gas Company (SoCalGas) and San Diego Gas & Electric Company (SDG&E) hereby respond to the Motion of Southern California Edison Company (SCE) for Consideration of Winter Reliability Measures (Motion).¹ The Office of Ratepayer Advocates (ORA) has authorized us to represent that they concur with the positions in Sections III and V.d., and take no position on the other sections of this response.

SCE submitted this Motion on behalf of itself and several other SoCalGas and/or SDG&E noncore natural gas customers who refer to themselves collectively as the “Customer Coalition.”² This ad hoc “Customer Coalition” consists of SCE, the California Manufacturers and Technology Association, the California League of Food Processors, Indicated Shippers,

¹ Although SCE’s Motion is dated August 17, 2016, it was not served by SCE until 6:01 P.M. on August 17. Rule 1.15 of the Commission’s Rules of Practice and Procedure (*Computation of Time*) provides as follows: “If an act occurs after 5:00 p.m., it is deemed as having been performed on the next day.” Accordingly, SCE’s Motion is deemed to have been served on August 18 rather than August 17, and the deadline for our response is September 2, 2016. Attachment A to this Response is a copy of SCE’s 6:01 P.M. email serving the Motion.

² This current “Customer Coalition” is roughly half the size of the customer groups signing the April 29, 2016 Daily Balancing Proposal Settlement Agreement (Daily Balancing Settlement) approved by the Commission in D.16-06-021. Moreover, the current “Customer Coalition” does not include either ORA or the California Independent System Operator (CAISO)—both of whom were important signatories to the Daily Balancing Settlement.

Independent Energy Producers Association, Shell Energy North America (US), L.P., The Alliance for Retail Energy Markets (“AReM”), Southern California Generation Coalition, Commercial Energy, Western Power Trading Forum, Clean Energy Fuels, NRG Power Marketing and GenOn Energy Management LLC.³

As explained in more detail below, the proposals set forth in the Customer Coalition’s Motion are not necessary, appropriate, or, in certain cases, even feasible. Moreover, the Customer Coalition’s proposals are procedurally inappropriate. The Commission should deny the Customer Coalition’s Motion, and close this proceeding. If the Commission is interested in considering further any of the proposals presented by the Customer Coalition—and SoCalGas and SDG&E do not agree that any of these proposals are worthy of further consideration—we urge the Commission to consider the proposals in a new and different proceeding so that SoCalGas, SDG&E, and all of our customers—core and noncore alike—will receive due process and a fair opportunity to have their views heard, and so that the Commission can make its determinations regarding the Customer Coalition proposals based on an adequate evidentiary record.

II. BACKGROUND

A. UNDERLYING APPLICATION PROCEEDING

This application proceeding was instituted by SoCalGas and SDG&E on June 26, 2015, to propose revisions to their curtailment rules. SoCalGas and SDG&E presented testimony proposing gas curtailment procedure revisions to allow end-use curtailments to be effectuated in one or more of 10 defined local service zones, rather than the current system-wide curtailment

³ Two members of the self-styled “Customer Coalition” are not actually parties--NRG Power Marketing LLC and GenOn Energy Management LLC.

process.⁴ These proposed curtailment procedure revisions would restructure the order in which SoCalGas and SDG&E curtail noncore customers to protect deliveries to higher priority customers while simplifying the process.⁵ In conjunction with proposals for revised curtailment procedures, SoCalGas and SDG&E also proposed to eliminate the San Joaquin Valley and Rainbow Corridor/San Diego open season requirements as well as the distinction between firm and interruptible noncore service.⁶

Intervenor testimony was submitted on February 5, 2016, and rebuttal testimony was submitted on March 4, 2016, by SoCalGas and SDG&E as well as Southern California Generation Coalition (SCGC). On the first day of scheduled hearings, the parties announced that they had agreed to settlement principles, and on April 28, 2016, a Curtailment Procedures Settlement was submitted for Commission approval by SoCalGas, SDG&E, the California Independent System Operator, Southern California Edison Company (SCE), SCGC, Indicated Shippers, and the California Manufacturers & Technology Association (CMTA).⁷ On July 14, 2016, the Commission issued a decision—D.16-07-008—determining that the Curtailment Procedures Settlement is reasonable in light of the whole record, consistent with the law, and in the public interest, and approving the Settlement in its entirety and without modification.⁸

D.16-07-008 closed this proceeding.⁹ But on July 29, 2016 the Commission issued D.16-07-026 (*Order Correcting Error in Decision 16-07-008*) reopening the proceeding for consideration of the matters described in the Phase 2 discussion below.

⁴ D.16-07-008, mimeo., at 3.

⁵ D.16-07-008, mimeo., at 3.

⁶ D.16-07-008, mimeo., at 3.

⁷ D.16-07-008, mimeo., at 2.

⁸ D.16-07-008, mimeo., at 1.

⁹ D.16-07-008, mimeo., at 17 (Ordering Paragraph 3: “Application 15-06-020 is closed.”)

B. DAILY BALANCING MOTION AND SETTLEMENT

On March 1, 2016, SoCalGas and SDG&E filed a motion for an interim order temporarily establishing 5% daily balancing on their systems. SoCalGas and SDG&E sought temporary daily balancing authorization to enhance reliability and protect against curtailments this summer and next winter due to operational limitations at the Aliso Canyon storage field.¹⁰

Many customers intervened in opposition to this motion, and at a hearing on March 28, 2016, the parties agreed to participate in an informal clarification process to understand the basis for the motion and to convene a second prehearing conference (PHC) to address the issues raised in the motion. On April 14, 2016, Commissioner Florio issued an Assigned Commissioner's Amended Scoping Memo and Ruling which provides as follows:

The issues to be addressed in this proceeding are expanded to include the need for temporarily establishing five percent daily balancing on the SoCalGas and SDG&E systems to address operational constraints at the Aliso Canyon storage field.¹¹

The second PHC convened on April 20, 2016, and the parties indicated that they had reached an agreement in principle to resolve the daily balancing issues. On April 29, 2016, SoCalGas, SDG&E, and 24 other parties filed a motion seeking approval of a Daily Balancing Proposal Settlement Agreement (Daily Balancing Settlement). During the term of the Daily Balancing Settlement,¹² SoCalGas and SDG&E agreed to deal with supply shortages and surpluses using OFO tariff procedures rather than daily balancing procedures.¹³ To facilitate this

¹⁰ D.16-06-021, mimeo., at 2.

¹¹ Assigned Commissioner's Amended Scoping Memo and Ruling at 2.

¹² The term of the Daily Balancing Settlement began upon Commission approval, and conclude on the earlier of: (1) any superseding decision or order by the Commission, (2) return of Aliso Canyon to at least 450 MMcfd of injection capacity and 1,395 MMcfd of withdrawal capacity, or (3) November 30, 2016. D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3.

¹³ The Daily Balancing Settlement also provides that: "SoCalGas and SDG&E reserve the right to resubmit their daily balancing proposal during and after the Settlement term if low and high OFO procedures do not provide the necessary supply-related responses, and the other Settling Parties reserve

approach, the Daily Balancing Settlement provides that SoCalGas and SDG&E will make various temporary changes to their existing low and high OFO tariff provisions, including changing the existing 110% high OFO tolerance to a default of 105% that can be changed to 110% at SoCalGas and SDG&E's sole discretion. The Daily Balancing Settlement included a number of provisions unrelated to reliability that are designed to address customer concerns.¹⁴ In addition, the Daily Balancing Settlement contained the following proposal regarding a Phase 2 in this proceeding:

3. The Settling Parties request that the Commission establish a subsequent phase in this proceeding to consider reliability measures that may be needed beyond November 30, 2016, in the event that by that date: (1) Aliso Canyon has not returned to the service levels set forth in Section 2, or (2) working inventory at Aliso Canyon is not at least 45 BCF. Parties will meet in good faith to address reliability measures that may be needed beyond November 30, 2016, through Clarification Sessions, informal meetings, and/or Rule 12 settlement discussions, and will provide a Status Report regarding their discussions to the Commission no later than September 8, 2016. Settling Parties, individually or jointly, may seek Alternate Dispute Resolution or other procedures earlier than September 8, 2016, and other Settling Parties may oppose such proposals.¹⁵

On June 9, 2016, in D.16-06-021, the Commission approved the Daily Balancing Settlement in its entirety, including the above-referenced request for a Phase 2 to consider reliability measures that may be needed beyond November 30, 2016, and a September 8, 2016 joint status report.¹⁶ In reaching this decision, the Commission explained that:

the right to oppose any future daily balancing proposal.” D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-5.

¹⁴ The provisions of the Daily Balancing Settlement are summarized at pp. 5-7 of D.16-06-021.

¹⁵ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3. In D.16-07-026 (Order Correcting Error in Decision 16-07-008), the Commission reopened the proceeding to facilitate such discussions and to provide a venue for parties to submit their September 8, 2016 status report. D.16-07-026, mimeo., at 1-2.

¹⁶ D.16-06-021, mimeo., at 13-14 (Ordering Paragraphs 1 and 4).

3. All issues relating to the March 1, 2016 motion of SoCalGas and SDG&E seeking authorization temporarily establishing 5% daily balancing on the utility systems, together with other parties' proposals, filed on March 16, 2016, are resolved in the Settlement Agreement as attached to the April 29, 2016, Joint Motion.¹⁷

III. THE RELIEF REQUESTED BY THE CUSTOMER COALITION IS NOT NECESSARY, APPROPRIATE, OR, IN MANY CASES, EVEN FEASIBLE

In its Motion, the Customer Coalition asks the Commission to indefinitely extend the provisions of the Daily Balancing Settlement currently set to expire on November 30, 2016; the Customer Coalition requests that the Commission require SoCalGas and SDG&E to establish a system for trading of daily imbalances to enable customers to trade away low and high OFO/EFO noncompliance charges; and the Customer Coalition asks the Commission to upend the carefully-crafted balancing of interests established by the Commission in D.07-12-019, and require core customers to balance to their actual usage every day.

Each of these proposals is unnecessary and inappropriate for the reasons set forth below. Moreover, much of what the Customer Coalition is asking for is not feasible, at least during the near term—which is the only timeframe the Commission should consider in this proceeding.

A. THE PROVISIONS OF THE DAILY BALANCING SETTLEMENT SHOULD NOT BE EXTENDED BEYOND NOVEMBER 30, 2016

The Customer Coalition requests that a number of provisions from the Daily Balancing Settlement be extended indefinitely. Their only rationale for this extension is shown by the following conclusory statements: “All of the provisions set forth in this Section V extend current provisions in the Summer Reliability Measures. Owing to the continued limited availability of Aliso Canyon, these procedures should be extended.”¹⁸

¹⁷ D.16-06-021, mimeo., at 12 (Finding of Fact 3).

¹⁸ Customer Coalition Motion at 20.

SoCalGas and SDG&E urge the Commission to deny this proposal. The provisions from the Daily Balancing Settlement are not needed for reliability this winter—in fact, most of them have nothing to do with reliability at all. In addition, the Customer Coalition’s effort to create an indefinite ban on daily balancing is not appropriate.

1. An indefinite ban on daily balancing would be unreasonable and unwarranted

The first provision from the Daily Balancing Settlement that the Customer Coalition seeks to extend is the following:

1. SoCalGas and SDG&E will deal with supply shortages and surpluses using OFO tariff procedures rather than daily balancing procedures. To do this, SoCalGas and SDG&E may be required to call both low and high OFOs for the same gas day, as is permitted under current tariffs.¹⁹

If adopted, this provision would ban a potential new reliability tool for no reason other than the “continued limited availability of Aliso Canyon”—which is illogical.

The referenced language made sense in the context of a settlement in which SoCalGas and SDG&E were agreeing to temporarily back off from their March 1, 2016 motion for an interim order temporarily establishing 5% daily balancing on their systems—especially since the settlement also provided as follows:

SoCalGas and SDG&E reserve the right to resubmit their daily balancing proposal during and after the Settlement term if low and high OFO procedures do not provide the necessary supply-related responses, and the other Settling Parties reserve the right to oppose any future daily balancing proposal.²⁰

The referenced language, however, is not reasonable outside the context of a settlement that enables SoCalGas and SDG&E to still seek daily balancing if operational needs dictate. What reason would the Commission have for permanently banning daily balancing on the

¹⁹ Customer Coalition Motion at 19.

²⁰ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-5.

SoCalGas and SDG&E systems—particularly after the CPUC/CEC/CAISO/LADWP Reliability Task Force favorably referenced daily balancing as a potential reliability enhancement measure in its April 4, 2016 Aliso Canyon Action Plan?²¹ Certainly not the “continued limited availability of Aliso Canyon.” This proposal by the Customer Coalition is unreasonable and unsupported, and should be denied by the Commission.

2. All but one of the Daily Balancing Settlement provisions the Customer Coalition seek to extend have nothing to do with reliability

The Customer Coalition refers to the Daily Balancing Settlement provisions it wishes to extend as “Summer Reliability Measures.” In fact, all but one of these provisions have nothing to do with reliability, and extending them will not enhance system reliability in any way.

In addition to the proposed moratorium on daily balancing proposals just discussed, the Customer Coalition seeks an indefinite extension of the following provisions from the Daily Balancing Settlement:

2. SoCalGas and SDG&E will maintain the following temporary changes to their existing low and high OFO tariff provisions that were approved in D.16-06-021:

a. Low OFO noncompliance charges for the gas flow day will be waived when the confirmation process limiting nominations to system capacity cuts previously scheduled BTS nominations during any of the Intraday 1-3 Cycles (Cycles 3-5).

b. SoCalGas and SDG&E will have the discretion to waive OFO noncompliance charges for an electric generation customer who was dispatched after the Intraday 1 (Cycle 3) nomination deadline in response to (1) a SoCalGas System Operator request to an Electric Grid Operator to reallocate dispatched electric generation load to help maintain gas system reliability and integrity, or (2) an Electric Grid Operator request to the SoCalGas System Operator to help

²¹ April 4, 2016 CPUC, CEC, CAISO, and LADWP *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin* at 25-26.

maintain electric system reliability and integrity that can be accommodated by the SoCalGas System Operator at its sole discretion. For electric generators served by a contracted marketer, OFO noncompliance charges can be waived under this section only to the extent the contracted marketer nominates their electric generation customer's gas to the electric generation customer's Order Control Code.

c. The existing exemption from low OFO noncompliance charges for daily imbalances of 10,000 therms or less will be extended to high OFO buyback rate charges.

d. Low OFO noncompliance charges received from noncore customers will be credited to the noncore fixed cost account and low OFO noncompliance charges received from core customers will be credited to the core fixed cost account.

3. SoCalGas and SDG&E will continue to take the following additional actions that were approved by D.16-06-021:
 - a. The low OFO formula is revised so that the balancing trigger is based on operational constraints. SoCalGas and SDG&E will have the sole discretion to set the level of withdrawal capacity available for balancing based on operational conditions. *To the extent operationally feasible, SoCalGas and SDG&E will attempt to maximize the amount of withdrawal capacity available for balancing, up to the amount of withdrawal capacity allocated to the balancing function. SoCalGas and SDG&E will continue to post any changes to the low OFO formula on Envoy.*
 - b. *Injection nominations will be held to the injection capacity in every flowing cycle regardless of OFO status.*
 - c. *SoCalGas will provide a cycle-by-cycle low OFO calculation on Envoy.*²²

The italicized and bolded provisions above do not enhance system reliability—they simply provide various conveniences to SoCalGas and SDG&E customers. In the context of an overall good faith and cooperative negotiation process, such temporary conveniences represented a reasonable accommodation to noncore customer interests. But in the current context, with the

²² Customer Coalition Motion at 19-20 (emphasis added).

Customer Coalition seeking to impose non-reliability measures against our will based upon the unsupported and illogical assertion that these are somehow “Reliability Measures,” the provisions are unreasonable and unnecessary.

3. The one reliability enhancement measure from the Daily Balancing Settlement that the Customer Coalition seeks to extend is not needed after November 30, 2016, and could be counterproductive

Only one portion of one of the Daily Balancing Settlement provisions that the Customer Coalition seeks to extend actually relates to system reliability:

- a. The low OFO formula is revised so that the balancing trigger is based on operational constraints. SoCalGas and SDG&E will have the sole discretion to set the level of withdrawal capacity available for balancing based on operational conditions.

This provision is not necessary. As discussed in more detail below,²³ SoCalGas and SDG&E hope that we will be able to return to our normal low OFO trigger structure once Aliso Canyon returns to service. It would not be helpful to have the Commission require us to keep an operationally-based low OFO trigger structure in place if we are able to move back to our standard Commission-authorized trigger structure.

Moreover, SoCalGas already has the authority to revise its low OFO criteria to maintain safety and reliability:

The criteria for determining Low OFOs may be revised as needed by SoCalGas to maintain the safety and reliability of the pipeline system. These changes, along with a supporting explanation, will be posted as a regular notice on the SoCalGas Envoy EBB.²⁴

If SoCalGas should determine that an operationally-based low OFO trigger structure is still needed for some or all of the upcoming winter season, it may do so pursuant to this

²³ See Section III(C)(3).

²⁴ SoCalGas Rule 41(5).

preexisting authority (and we will post any necessary changes, along with a supporting explanation, on SoCalGas' Envoy EBB. There is no need to extend this provision from the Daily Balancing Settlement.²⁵

B. TRADING OF OFO/EFO IMBALANCES IS UNNECESSARY AND POTENTIALLY HARMFUL TO SYSTEM RELIABILITY

The Customer Coalition proposes that the Commission require SoCalGas and SDG&E to adopt daily imbalance trading protocols as a result of SoCalGas addressing this concept during its June 2, 2016 annual customer forum.²⁶ And, according to the Customer Coalition:

A daily imbalance trading mechanism that operates after the end of a gas flow day will not change the overall system balance on the gas flow day. Daily imbalance trading is an “after the fact” paper transaction that enables a customer (or an in-state producer) to offset all or a portion of its daily imbalance (and OFO noncompliance charge) through a trade with another customer, or with an in-state producer, or with a firm storage account.²⁷

SoCalGas and SDG&E do not support the adoption of daily imbalance trading.

SoCalGas included the topic of daily imbalance trading in its 2016 annual Customer Forum presentation because of customer interest, not because we support it or believe that it will be good for our system. SoCalGas presented—for discussion purposes only—several possible options for daily imbalance trading that could potentially be considered at some point in the future. SoCalGas made it clear that we were not making a proposal, and we pointed out during the Customer Forum that any of the options presented would require extensive and time-

²⁵ The crucial reliability-related provision in the Daily Balancing Settlement is the temporary change of the existing 110% high OFO tolerance (specified in G-IMB) to either 105% or 110%, at the discretion of SoCalGas and SDG&E. This provision has been superseded by the new high OFO requirements adopted by the Commission in D.16-06-039, and the Customer Coalition is not seeking to extend it.

²⁶ Customer Coalition Motion at 16-18.

²⁷ Customer Coalition Motion at 17.

consuming information technology work, with implementation costs expected to be at least \$1 million.²⁸

Even if the imbalance trading protocol proposed by the Customer Coalition had the potential to create reliability improvements—which it does not—their proposed protocol cannot be implemented this winter because of information technology constraints, and it should not even be considered in a proceeding kept open just to consider near-term reliability measures.²⁹

Even more important, however, is the issue of system reliability. The Customer Coalition appears to argue at the beginning of their Motion that daily imbalance trading will somehow *enhance* natural gas system reliability: “Modified core balancing measurement and daily imbalance trading protocols (Winter Reliability Measures) will enhance SoCalGas’ existing tools to manage system reliability . . .”³⁰ This simply cannot be the case for something that the Customer Coalition argues later “will not change the overall system balance on the gas flow day.”³¹ The Customer Coalition cannot have it both ways.

Daily imbalance trading is either harmful to reliability, or, at best, not helpful. The Customer Coalition’s assertion that daily imbalance trading is “after the fact” paper transaction that “will not change the overall system balance on the gas flow day” potentially supports a “not helpful” position. But these conclusory statements should not be taken at face value. How can someone (particularly someone making an assertion under oath) state conclusively that after-the-fact daily imbalance trading will not affect transactions during the gas day? Logic and real-world experience would seem to dictate otherwise.

²⁸ SoCalGas Advice No. 5004, Attachment A, Appendix 2, page 33.

²⁹ It may be possible to create a more limited protocol that could initially be implemented without immediate information technology upgrades. But such a system is not what the Customer Coalition is proposing, and such a system would still either reduce system reliability, or at least not help it.

³⁰ Customer Coalition Motion at 4.

³¹ Customer Coalition Motion at 17.

Yes, daily imbalance trading would be an after-the-fact process that results in accounting entries. But it could result in real-world consequences because shippers and end-use customers would understand that penalties incurred on OFO/EFO days could be traded away after the end of the trading day—e.g., why buy additional supplies at a relatively high price in order to avoid a low OFO noncompliance charge if you have a reasonable possibility of trading away your imbalance after the trading day for less? And this risk could be exacerbated on days when SoCalGas and SDG&E are forced to call simultaneous low and high OFOs—days when we need the most scrupulous compliance from shippers and end-use customers—since a market participant with an imbalance on the low side might gamble that there are likely to be market participants with imbalances on the high side, and vice versa. Moreover, the existence of daily imbalance trading could even create speculative imbalances from marketers and others who hope to create after-the-fact trading opportunities. SoCalGas and SDG&E are not certain that any of this will occur. But the actions of certain market participants during the energy crisis lead us to believe that the potential for abuse of new trading-related regulatory requirements is not simply a matter of academic concern.

After-the-fact trading of daily OFO/EFO imbalances is unnecessary and potentially harmful to system reliability for the reasons just described. It should not be forced on SoCalGas and SDG&E.

C. THE CUSTOMER COALITION CORE BALANCING PROPOSAL IS NOT FEASIBLE, AND NOT REASONABLE

The Customer Coalition proposes that the Commission undo the provisions of D.07-12-019, and require core customers to balance to actual daily usage rather than to a same-day forecast, as is currently required. This proposal is not feasible, at least in the timeframe contemplated by the Commission in this proceeding. Moreover, it would represent a policy

change that should not be made without a thorough examination of the relative rights and responsibilities of core and noncore customers—an examination that, if it needs to take place at all, needs to take place in a new proceeding in which proper notice can be provided to all affected parties, testimony can be submitted, discovery conducted, and evidentiary hearings held. There should not be a rush to judgment on this topic simply because certain noncore customers wish to continue a battle against core customers that most recently concluded with the truce established by the Commission in D.07-12-019.

1. SoCalGas' Gas Acquisition group does not have access to the same real-time usage information for core customers as noncore customers do regarding their own usage

SoCalGas' Gas Acquisition group is responsible for the procurement of natural gas for approximately six million SoCalGas and SDG&E core customers. Pursuant to the 2007 “Omnibus Decision” (D.07-12-019),³² and decisions adopting low and high OFO/EFO requirements for SoCalGas and SDG&E,³³ on low and high OFO days our core customers balance to a same-day forecast rather than actual usage. In the Omnibus Decision, the Commission determined that core customers should balance to a forecast rather than actual usage because it was not physically possible to obtain real-time usage information from each core customer at that time.³⁴ Despite unsupported claims to the contrary by the Customer Coalition, this is still the case.

SoCalGas and SDG&E have indeed made substantial advances in building out their Advanced Metering Infrastructure (AMI) systems. But it is incorrect for the Customer Coalition

³² Please see the next section of this Response for more on this decision and the changes it ushered in.

³³ D.15-06-004, mimeo., at 42-43 (Ordering Paragraphs 6-8); D.16-06-039, mimeo., at 65 (Ordering Paragraph 20).

³⁴ D.07-12-019, mimeo., at 57.

to assume that these core AMI systems are capable of providing the same information as the automated measurement technology available to all noncore customers. The AMI systems installed by SoCalGas and SDG&E to serve their core customers are focused on eliminating the need for manual meter reading, providing enhanced leak detection, and on providing relevant prior-day usage information to individual core customers—not on aggregating usage information from millions of core customers on a real-time hourly or daily basis in order to facilitate the desire of certain noncore customers for equivalent balancing regimes.

The question of whether core AMI systems can be used for daily balancing purposes was most recently raised by SCGC in Phase 2 of the most recent SoCalGas/SDG&E Triennial Cost Allocation Proceeding (TCAP), A.15-07-014. In that proceeding, SoCalGas and SDG&E served testimony on April 11, 2016, explaining that the SoCalGas and SDG&E AMI systems are not designed to enable Gas Acquisition or other core balancing agents to observe and respond to their usage on a real-time basis.³⁵

As explained by Mr. Borkovich in his Phase 2 TCAP testimony, in order to provide core balancing agents with the daily usage information currently provided to noncore customers and noncore balancing agents via Envoy, SoCalGas and SDG&E would need to be able to discretely measure each core customer's usage from 12 AM to 12 AM PST each day, aggregate the daily usage by the respective core balancing agent, report the individual and aggregated usage to the core balancing agent each day, and store the individual and aggregated daily usage in a form retrievable by the billing system that would calculate the OFO noncompliance charges each month and charge them to the respective core balancing agent.³⁶ Moreover, in order to maintain consistent treatment between core and noncore customers, minimum and maximum daily

³⁵ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich).

³⁶ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 2.

quantities must also be determined for core customers without automated measurement capability installed (i.e., opt outs), and these amounts would have to be incorporated in the daily measurement database and be periodically updated to maintain accuracy.³⁷

Neither SoCalGas nor SDG&E currently have systems capable of converting these daily core reads into daily measurement quantities that can be allocated and aggregated to the respective core balancing agents for the purpose of calculating OFO noncompliance charges.³⁸

At SoCalGas data is not communicated every minute or even every hour between the AMI module (MTU) attached to the gas meter and the communications network of data collection units (DCU) installed across the SoCalGas service territory. Rather, data from the MTU is batched and encrypted by the MTU every six hours; then on a random schedule between zero and six hours later, the data is communicated from the MTU to the DCU where it is then aggregated with other MTU data and transmitted to SoCalGas' back-office systems.³⁹ This random transmission schedule is unique for every MTU transmission and serves to ensure an even usage of the MTU-DCU radio network. For system design purposes, the delay between when a given hourly read is taken by the MTU and when it is available and usable (e.g., aggregated with all other MTU reads for the same hour) in the SoCalGas back office system cannot be less than 14 hours.⁴⁰ The delays are: six hours for the six hourly reads that are taken and batched in the MTU, plus up to six hours for data transmission, and approximately two hours for data processing at various stages.⁴¹ At SDG&E, daily meter reads are recorded that are used to serve two purposes. The primary purpose of the SDG&E gas AMI system is to collect and store the daily meter *reads* from 900,000 AMI-enabled gas meters in order to calculate the

³⁷ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 2-3.

³⁸ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 3 and 5.

³⁹ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 4.

⁴⁰ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 4-5.

⁴¹ A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 5.

monthly bill for each of these customers. The second purpose is to calculate daily usage for individual customers who have the smart module installed on their gas meters that allows these customers to view their daily usage on the SDG&E online webpage.⁴²

As a result, it would not be possible under the current AMI configuration for Gas Acquisition and other core balancing agents to receive meaningful real-time core usage information. Any usage information Gas Acquisition and other core balancing agents would receive would be *after* the relevant flow day, which would completely defeat the supposed purpose of requiring core customers to balance to actual usage rather than a same-day forecast. System reliability would not be enhanced by requiring core customers to balance to a usage figure that is only known *after* the relevant flow day. Rather, core customers would simply be subjected to penalties that they would have no ability to mitigate.

The Customer Coalition asserts that changes can be made to software and our current approach to delivery of AMI information. And on one level, that assertion may be correct—with enough time and enough money, our AMI systems might be able to be reconfigured to provide Gas Acquisition and other core balancing agents with core usage that is real-time, or at least reasonably close to real-time. But any such changes would take a substantial amount of time to implement, and require substantial additional expenditures. Information Technology changes are never quick, and the large-scale changes that would be required to change our AMI systems in the manner contemplated by the Customer Coalition cannot be completed in time for this winter season. Moreover, any changes to our AMI systems will be complex, owing at least in part to the fact that we are dealing with highly sensitive customer information and because we are dealing with many millions of customer meters, not to mention the complexity involved in the management of the data exchange and connections to our billing systems.

⁴² A.15-07-014, Ex. SCG-22 (SoCalGas/SDG&E/Borkovich) at 3.

SoCalGas and SDG&E have not attempted to come up with a time or dollar estimate for what would be involved for us to meet the core balancing demands of the Customer Coalition. Software upgrades are certain to be expensive, and there are undoubtedly many related costs. But one obvious cost is the additional battery replacement cost if we switch from transmittals from the MTU to the DCU every six hours to transmittals every hour. A quick, back-of-the-envelope estimate is that such a change would reduce meter battery life from approximately 20 years to approximately 7 years—with an associated additional annual cost in excess of \$90 million.

SoCalGas and SDG&E do not believe the limited system reliability benefits that might be gained from requiring core customers to balance to actual usage would be worth anything close to \$90 million a year, let alone the even greater all-in cost that would result from software upgrades and other related changes and reconfigurations. Bottom line, requiring core customers to balance to actual usage is not possible in the short-term, and it likely does not make sense financially in the longer-term. The Commission should dismiss this proposal, and continue the core balancing regime first established almost a decade ago in D.07-12-019. If the Commission is nonetheless interested in pursuing this further, it should make it clear that any and all costs associated with changing the current approach to core balancing—i.e., additional battery costs, software upgrade costs, and any other costs associated with such a change—will be paid for directly by the noncore customers demanding the change, and not by core customers.

2. The current balancing rules represent a delicate balance of policy concerns

In D.07-12-019, the Commission approved a wide range of revisions to the natural gas operations and service offerings of SoCalGas and SDG&E, relating to core operations, unbundled storage, and provisions for expansion of storage capacities, among other things. One

such change was the adoption of simultaneous core balancing and minimum flow proposals designed (1) to treat core customers more like noncore customers, (2) to address concerns that noncore customers may currently view the core as having a “privileged” position with respect to system balancing, and (3) to address the fact that the core was shouldering all system minimum flow responsibilities.⁴³ The Commission adopted these interrelated proposals, taking minimum flow responsibilities away from bundled core customers; providing core with balancing service equal to 10% of core burn (which provided core with an additional 300 MMcf/day of peak withdrawal capacity); and making both core and noncore customers subject to the same balancing requirements (with core balancing to a same-day forecast).⁴⁴

In D.07-12-019 the Commission took steps to make the core more like other customers. But it did not change the fact that core and noncore customers are still in fundamentally different positions. Bundled core customers are required to fill storage every year,⁴⁵ providing reliability benefits to *all* system customers.⁴⁶ Conversely, noncore customers have no obligation to store even a therm of gas. Moreover, Gas Acquisition is responsible for procuring most Company Use gas and all Lost and Unaccounted For (LUAF) gas, and the bundled core can still be called upon as a provider of last resort for Southern System reliability.⁴⁷

⁴³ D.07-12-019, mimeo., at 52.

⁴⁴ D.07-12-019, mimeo., at 52-57.

⁴⁵ Bundled core customers are required to meet both a July 31 mid-season storage target, and an October 31 storage target. The October 31 target essentially requires bundled core to fill all of its storage inventory rights every year. *See* SoCalGas Preliminary Statement Part VIII (Gas Cost Incentive Mechanism) C(7).

⁴⁶ When Gas Control calls on storage withdrawals to prevent curtailments, it does not check to see whether the gas is being withdrawn by core or noncore customers; instead it simply tells the relevant storage fields to go on withdrawal. Accordingly, the significant storage rights allocated to and paid for by core customers, and the obligation of core customers to fill their inventory rights every year—no matter what is taking place in the natural gas marketplace—benefit all customers, not just core customers.

⁴⁷ SoCalGas Rule 41(14).

In addition, the bundled core is in a very different position from noncore customers from a procurement standpoint. Some noncore customers have stable loads—e.g., a glass plant that has the same operational schedule virtually every day—and others have loads that vary tremendously from day to day—e.g., a quick-start electric generator. But *all* noncore customers, even the largest ones, have the ability to act nimbly in the competitive marketplace because of their relatively limited size, and their ability to enter into whatever commercial arrangements they wish to make. The bundled core is in a very different position. First, the bundled core represents a huge number of individual customers, and serving those customers requires a very large quantity of natural gas every day. Whereas noncore customers can act nimbly in the competitive marketplace—Lamborghinis or Priuses if you will—the bundled core is much more like an 18-wheeler that takes a long time to start and a long time to stop. This inability to move nimbly is compounded by the fact that the bundled core needs to meet storage requirements not imposed on noncore customers, and the fact that the bundled core is required to hold a substantial amount of interstate capacity at all times.⁴⁸

The Commission should not impose new balancing requirements on core customers without carefully examining whether other aspects of the core/noncore relationship need to be changed. Should core customers be the only customers on our system with an obligation to put gas into storage? Should bundled core customers be the only customers on our system who have an obligation to hold interstate capacity? Moreover, the Commission should be careful not to create unintended consequences for bundled core customers. Savvy marketers are likely salivating at the idea of new requirements that force bundled core customers to either buy or sell significant supplies during late gas day cycles. Any revised approach to core balancing should

⁴⁸ D.04-09-022, mimeo., at 29. *See, e.g.* SoCalGas Advice No, 5006, Updates to SoCalGas' Capacity Planning Ranges Based on the 2016 California Gas Report.

carefully consider the relative rights and obligations of core and noncore customers, and the potential for harm to core customers that may result from such changes.

3. The Customer Coalition oversells the potential for reliability problems created by core customers balancing to a forecast

The Customer Coalition starts with the premise that core customers balancing to a forecast creates the potential for substantial system reliability problems. This premise is not well founded.

SoCalGas and SDG&E agree that, all other things being equal, balancing to a forecast—even a flow-day forecast as the core does now—is somewhat less accurate than balancing to actual usage. Forecasts, no matter how carefully constructed, cannot take into account all factors that affect actual usage. But the fact that core actual usage will invariably vary from forecast usage does not lead to an inevitable conclusion that such discrepancies—which have always existed—create a system reliability problem.

The Customer Coalition assumes that all load variations on the system are equal. This assumption is not accurate. Changes in bundled core usage are almost always a function of temperature variation, and changes in temperature occur over time—they are almost never as dramatic, at least from a system operator standpoint, as a large quick-start electric generation unit starting up on an un-forecasted basis. Moreover, bundled core load is spread out among millions of residential and small businesses located throughout a geographically huge service territory—as a result, temperature-driven changes in core usage put less strain on our system than changes of a similar magnitude in electric generator or large noncore customer usage, especially since that large noncore usage is often concentrated in one location such as the Los Angeles Basin or San Diego.

In addition, Customer Coalition predictions of core-driven reliability problems this winter do not take the return of Aliso Canyon into account. SoCalGas expects high injection rates to begin at Aliso Canyon prior to the upcoming winter season, which, in turn, will allow the field to provide significant deliverability for winter reliability. Rather than allocating just 170 MMcfd of withdrawal for balancing, as has been the norm during most of the summer, SoCalGas will be able to allocate 525 MMcfd of withdrawal to the balancing function. These operational changes should result in SoCalGas/SDG&E low OFO frequencies more similar to those on the PG&E system. Although there may be a few days each winter where core actual demand exceeds the core forecast by 200 MMcf, this error can be much more easily accommodated when 525 MMcfd of withdrawal, rather than 170 MMcfd, is allocated to the balancing function.

As for high OFOs, injection capability will increase significantly once Aliso Canyon is operational again and the Aliso Canyon Turbine Replacement project (ACTR) is in place. SoCalGas will be able to allocate 345 MMcfd of injection to the balancing function, which will typically allow 10% tolerances on high OFO days rather than the more restrictive 5% tolerances that were needed with Aliso Canyon basically inoperative during the summer.

4. The fact that the recent CPUC/ CEC/ CAISO/ LADWP Reliability Winter Action Plan mentions core balancing favorably does not change any of the facts or policy issues relating to core balancing

SoCalGas and SDG&E anticipate that the Customer Coalition will attempt to make much of the fact that the August 22, 2016 *Aliso Canyon Gas and Electric Reliability Winter Action Plan* issued by the Commission, the California Energy Commission (CEC), the California Independent System Operator (CAISO), and the Los Angeles Department of Water and Power (LADWP) contains the following as one of its 10 “mitigation measures”:

Add Core Balancing Rules. SoCalGas is responsible, with certain exceptions, for buying and scheduling the natural gas it uses to serve core customers. Unlike noncore customers who must balance their scheduled gas quantities to their actual demand (something that is often difficult for electric generators whose load is driven both by weather and the electricity market), SoCalGas balances its core loads to a forecast. In other words, noncore customers are responsible for forecast error. SoCalGas is not responsible for any forecast error.

A look at the gas balance tables in Appendix C shows monthly demand for core customers, even in a winter with normal weather, often to be in excess of 1500 mmcf. The monthly balancing tolerance allowing a 10 percent difference between demand and supply could, in theory, easily be more than the 150 mmcf identified as the maximum supply and demand differential tolerable while Aliso Canyon is not in full service. Noncore customers (including electric generators) can be completely in balance while SoCalGas is responsible for doing nothing to reduce a core customer imbalance that could be large enough to put the system in stress.

SoCalGas should assure that meter read information for the first portion of the gas day is analyzed and transmitted to the system operators. The operators should then update the gas quantities scheduled for core customers to achieve a better match of core customer gas purchases and actual core gas demand. CPUC action will be required to put this measure in place.⁴⁹

It is not surprising that this “mitigation measure” would be included in an action plan co-authored by LADWP—LADWP is a member of SCGC, which in turn is one of the representatives of the Customer Coalition, and this proposed mitigation measure mirrors the arguments and assertions by the Customer Coalition in this present proceeding.

But the inclusion of core balancing to actual usage in the Winter Action Plan does not change any of the underlying facts—requiring core customers to balance to actual usage is not feasible, and any such requirement will simply create unavoidable penalties for core customers; the current system of noncore customers balancing to actual usage and core customers balancing

⁴⁹ August 22, 2016 CPUC, CEC, CAISO, and LADWP *Aliso Canyon Gas and Electric Reliability Winter Action Plan* at 21.

to a same-day forecast represents a delicate balance of policy concerns that should not be usurped without a careful examination of the relative rights and responsibilities of both groups of customers; and the Customer Coalition is substantially overselling the potential system reliability problems that may result from core customers balancing to a same-day forecast.

IV. THE CUSTOMER COALITION'S PROPOSALS ARE PROCEDURALLY INAPPROPRIATE

In addition to being unnecessary, unreasonable, and, in certain cases, impossible, the relief requested by the Customer Coalition in its Motion is also procedurally inappropriate.

A. THE CUSTOMER COALITION'S DAILY IMBALANCE TRADING PROPOSAL AND MOST OF THE DAILY BALANCING PROVISIONS THAT THE CUSTOMER COALITION SEEK TO EXTEND ARE OUTSIDE THE SCOPE OF THIS PROCEEDING

As explained by the Commission in D.16-06-021 and D.16-07-008, all issues relating to SoCalGas' and SDG&E's proposed gas curtailment procedure revisions and our proposed temporary daily balancing motion have now been resolved. The only remaining issue within the scope of this proceeding is whether additional reliability measures are needed beyond November 30, 2016.⁵⁰

The Customer Coalition's daily imbalance trading proposal is not a reliability measure. If the Customer Coalition's unsupported factual claims with respect to this proposal are to be believed—and SoCalGas and SDG&E do not think they should be—then daily imbalance trading would have no effect on system reliability. If SoCalGas and SDG&E are correct, establishment of a system for trading of daily imbalances will potentially have a negative effect on system reliability by reducing the incentive customers have to comply with our OFO/EFO requirements. Either way, daily imbalance trading will not have a salutary effect on system reliability.

⁵⁰ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3. In D.16-07-026 (*Order Correcting Error in Decision 16-07-008*), mimeo., at 1-2.

It would not surprise SoCalGas and SDG&E for the Customer Coalition to argue “Waiver—you agreed to discuss daily imbalance trading during the Customer Forum,” “Waiver—you agreed to discuss daily imbalance trading in Phase 2,” or “Waiver—you included a host of non-reliability measures in the Daily Balancing Settlement.” To the extent such argument is raised, SoCalGas and SDG&E firmly disagree with it. Yes, SoCalGas and SDG&E agreed to discuss daily imbalance trading during the Customer Forum and in the context of good faith Phase 2 settlement negotiations, and we agreed to a number of non-reliability measures in the Daily Balancing Settlement as part of the compromises inherent in coming to a negotiated agreement. But our consideration of non-reliability measures was because of noncore customer interest, not because we believed any of these measures would enhance system reliability. Moreover, such discussions cannot somehow transform something that is potentially harmful to reliability into a “reliability measure.”

The situation is highlighted by the Daily Balancing Settlement provision which provides that: “From the beginning of the Settlement term through July 1, 2016, the high OFO buyback rate will be double the otherwise applicable buy-back rate.”⁵¹ Does this provision enhance reliability? Absolutely not. If anything, by effectively eliminating high OFO penalties for approximately a month, it was potentially harmful to reliability. But in the context of an overall good faith and cooperative negotiation process, such a limited, short-term measure was a reasonable accommodation to noncore customer interest, particularly since SoCalGas also has the operational ability to limit receipt point availability to avoid system over-pressurization if high OFO requirements are not having their intended effect.

⁵¹ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3. This is one of the few Daily Balancing Settlement provisions that the Customer Coalition is not seeking to extend.

The same cannot be said for daily imbalance trading, which the Customer Coalition is attempting to impose against our will via an adversarial motion. Under those circumstances, the Customer Coalition’s proposal needs to be viewed for what it really is—something either harmful to reliability, or not helpful. Likewise, the non-reliability provisions in the Daily Balancing Settlement by definition cannot make the SoCalGas and SDG&E natural gas systems more reliable. For that reason alone, the Customer Coalition’s daily imbalance trading proposal and proposed extension of non-reliability provisions from the Daily Balancing Settlement should be dismissed. If something does not at least have the potential to have a positive effect on system reliability, it is by definition outside the scope of this proceeding, and the Commission should not consider it.

B. IT IS INAPPROPRIATE FOR THE CUSTOMER COALITION TO UNILATERALLY PROPOSE CHANGES TO SOCALGAS’ AND SDG&E’S TARIFFS

Utilities are responsible for the service they provide to their customers, which is why only utilities can file applications and advice filings to change their tariffs.⁵² It is improper for the Customer Coalition to attempt to unilaterally change SoCalGas’ and SDG&E’s tariffs without our consent when we are no longer proposing any changes to our tariffs.

This phase of the proceeding was designed to enable SoCalGas, SDG&E, and interested parties to discuss potential post-November 30 reliability measures that could possibly be agreed upon. But barring such an agreement, no additional reliability measures should be entertained by

⁵² See California Public Utilities Code Section 454(a). See also GO 96-B Section 3.1 (“Advice Letter: ‘Advice letter’ means (1) an informal request *by a utility* for Commission approval, authorization, or other relief, including an informal request for approval to furnish service under rates, charges, terms or conditions other than those contained in the utility’s tariffs then in effect . . .”) (emphasis added) and Section 5.1 (“Matters Appropriate to Advice Letters: The primary use of the advice letter process is to review *a utility’s request* to change its tariffs in a manner previously authorized by statute or Commission order, to conform the tariffs to the requirements of a statute or Commission order, or to get Commission authorization to deviate from its tariffs.” (Emphasis added.)

the Commission. If SDG&E should like to see revisions to one of the tariffs of Customer Coalition member SCE, it cannot propose such changes except in the context of an application proceeding or rulemaking in which such tariffs are under consideration by the Commission. SoCalGas and SDG&E have withdrawn our daily balancing proposal, we are not proposing any further revisions to our tariffs beyond the agreed-upon changes adopted pursuant to the Daily Balancing Settlement, and we do not support any of the changes now being proposed by the Customer Coalition. Under such circumstances proposed tariff changes from any party other than SoCalGas or SDG&E are not appropriate.

C. THE ISSUES RAISED BY THE CUSTOMER COALITION SHOULD NOT BE DECIDED BASED UPON DECLARATIONS ATTACHED TO A MOTION

As explained above, the Customer Coalition proposals—in particular their proposal to change the existing core balancing regime established by the Commission in D.07-12-019—present complex legal and factual questions. Such questions should not be decided based upon declarations attached to a motion—especially a motion by non-utilities backed by declarations that are factually incorrect, made by declarants who have no experience operating a natural gas system, no direct knowledge regarding how our advanced metering programs work, and no clue regarding what it would take from a cost and timing standpoint to implement the proposals.

The only way for the Commission to ensure that SoCalGas, SDG&E, and our core customers receive due process and a fair opportunity to have their views heard is to consider such proposals—if they need to be considered at all—in the context of a new proceeding that provides for written testimony, a reasonable opportunity to conduct discovery, and evidentiary hearings. If the Commission is going to consider extending Daily Balancing Settlement provisions that do not need extending, adopting daily imbalance trading provisions that would potentially undercut the effectiveness of our low and high OFO/EFO provisions, or undoing the

delicate balance of interests reflected in current core balancing provisions, it needs to do so based on a full evidentiary record that allows the interests of all customers—core and noncore alike—to be adequately considered.

As discussed below, SoCalGas and SDG&E do not agree that further contemplation of the Customer Coalition proposals would be necessary or even useful. But if the Commission is interested in considering any of them further, SoCalGas and SDG&E's next Triennial Cost Allocation proceeding (TCAP) would be a reasonable and logical venue.

D. IT IS UNREASONABLE FOR THE CUSTOMER COALITION TO PROPOSE PERMANENT CHANGES TO SOCALGAS' AND SDG&E'S TARIFFS

As described above in the Background section of this Response, the basic purpose of this application proceeding was to consider proposed changes to SoCalGas' and SDG&E's curtailment rules—changes which have been adopted by the Commission in D.16-07-008.⁵³ SoCalGas and SDG&E raised the possibility of new daily balancing requirements in our March 1, 2016, motion for an interim order *temporarily* establishing 5% daily balancing requirements. Our daily balancing proposal had a proposed one-year term, with a proposed effective date of May 1, 2016, and the Daily Balancing Settlement covers all but five months of that proposed one-year term.⁵⁴

The Customer Coalition, on the other hand, is proposing *permanent* changes to SoCalGas' and SDG&E's tariffs even though permanent tariff changes—other than the permanent curtailment rule changes adopted in D.16-07-008—were never on the table in this proceeding. SoCalGas and SDG&E proposed temporary daily balancing to deal with a

⁵³ D.16-07-008, mimeo., at 1.

⁵⁴ SoCalGas and SDG&E did propose the potential for extension of temporary daily balancing requirements beyond the initial one-year term in order to meet operational needs. But any such extensions would have required additional Commission approval.

temporary system problem. It is unreasonable for the Customer Coalition to attempt to use this proceeding as a vehicle to obtain permanent changes to SoCalGas' and SDG&E's tariffs. For this reason as well, each of the Customer Coalition's proposed "reliability measures" is procedurally inappropriate.

V. THE COMMISSION SHOULD CLOSE THIS PROCEEDING

As discussed above, none of the proposals presented by the Customer Coalition are reasonable or appropriate. Moreover, SoCalGas and SDG&E are comfortable going into the upcoming winter without any additional reliability measures other than the new high OFO requirements that will be implemented on December 1, 2016. Under these circumstances, the Commission can and should permanently close this proceeding.

A. ALL OF THE ISSUES PROPERLY BEFORE THE COMMISSION IN THIS PROCEEDING HAVE BEEN RESOLVED

As explained by the Commission in D.16-06-021 and D.16-07-008, all issues relating to SoCalGas' and SDG&E's proposed gas curtailment procedure revisions and our proposed temporary daily balancing motion have now been resolved.⁵⁵ The only remaining issue within the scope of this proceeding is whether additional reliability measures are needed beyond November 30, 2016.⁵⁶

As discussed above, SoCalGas and SDG&E are comfortable going into the winter with the reliability tools already at our disposal. We do not believe there is a need for additional reliability tools at this time, and the three "reliability measures" proposed by the Customer Coalition would not provide any reliability improvements this upcoming winter. As a result, all

⁵⁵ D.16-06-021, mimeo., at 12 (Finding of Fact 3); D.16-07-008, mimeo., at 15 (Finding of Fact 2).

⁵⁶ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3. In D.16-07-026 (*Order Correcting Error in Decision 16-07-008*), mimeo., at 1-2.

of the issues properly before the Commission in this application proceeding have been resolved, and it is time to close the proceeding.

B. PHASE 2 SETTLEMENT DISCUSSIONS HAVE RUN THEIR COURSE

As described above, the Daily Balancing Settlement contained the following proposal regarding a Phase 2 in this proceeding:

3. The Settling Parties request that the Commission establish a subsequent phase in this proceeding to consider reliability measures that may be needed beyond November 30, 2016, in the event that by that date: (1) Aliso Canyon has not returned to the service levels set forth in Section 2, or (2) working inventory at Aliso Canyon is not at least 45 BCF. *Parties will meet in good faith to address reliability measures that may be needed beyond November 30, 2016, through Clarification Sessions, informal meetings, and/or Rule 12 settlement discussions*, and will provide a Status Report regarding their discussions to the Commission no later than September 8, 2016. Settling Parties, individually or jointly, may seek Alternate Dispute Resolution or other procedures earlier than September 8, 2016, and other Settling Parties may oppose such proposals.⁵⁷

SoCalGas and SDG&E have indeed met with other interested parties (of whom the “Customer Coalition” is but a subset) to discuss the possibility of reliability measures that may be needed beyond November 30, 2016. These discussions took place during six Rule 12 settlement meetings, the most recent on August 11, 2016.⁵⁸

Although the parties have endeavored to resolve their differences during these discussions, recent actions by the Customer Coalition and certain Customer Coalition members strongly indicate to SoCalGas and SDG&E that these discussions have run their course:

⁵⁷ D.16-06-021, mimeo., Attachment 2 (Daily Balancing Settlement) at A-3 (emphasis added).

⁵⁸ Although the Customer Coalition Motion states that there were four Phase 2 Rule 12 settlement conferences, there were actually six, on the following dates: June 15, June 30, July 7, July 13, August 6, and August 11.

- On July 15, 2016, Customer Coalition members Shell and AReM used their “response” to an unrelated SoCalGas advice filing⁵⁹ to ask the Commission to require SoCalGas to seek authorization for daily imbalance trading, even though this concept was under consideration in our confidential Rule 12 settlement discussions in this proceeding.⁶⁰
- On July 29, 2016—the same day this proceeding was reopened—the Customer Coalition made a unilateral demand for alternative dispute resolution (ADR), stating that “settlement negotiations have not been sufficiently productive.” On August 1, 2016 SoCalGas and SDG&E declined to participate in ADR, explaining as follows:

The first principle of ADR is that it should be voluntary: “Generally, participation in ADR processes should be voluntary. Disputing parties cannot be forced to agree.” (ALJ-185 at p. 5.) ADR in this proceeding would not be voluntary. Moreover, the fact that the Customer Coalition submitted this communication without waiting even a day for an answer from SoCalGas and SDG&E, and the fact that the Customer Coalition copied the entire service list rather than just you, strongly suggests that their request is an effort on their part to gain negotiating leverage, not an olive branch.

...

SoCalGas, SDG&E, and the Customer Coalition were in the midst of Rule 12 settlement discussions when the Commission closed this proceeding on July 14. Now that the Commission has re-opened the proceeding (on July 29, the same day as the Customer Coalition’s note), SoCalGas and SDG&E would be willing to engage in further Rule 12 settlement discussions.

⁵⁹ Advice Letter (AL) 4978, filed by SoCalGas on June 22, 2016, to obtain preauthorization to enter into baseload contracts to support Southern System reliability for the months of August and September, 2016.

⁶⁰ The July 21, 2016 disposition letter from the Energy Division approving SoCalGas AL 4978 and rejecting Shell and AReM’s daily imbalance trading proposal is Attachment B to this Response.

On August 1, 2016 ALJ Hymes responded to the Customer Coalition's ADR demand as follows:

Southern California Gas Company (SoCalGas) and San Diego Gas and Electric Company (SDG&E) have declined to participate in the Commission's Alternative Dispute Resolution (ADR) process, as requested by Southern California Edison and other parties. SoCalGas and SDG&E correctly emphasize that the ADR process is voluntary and that disputing parties cannot be forced to participate. Thus, no neutral judge will be assigned to this proceeding through the ADR program.

However, SoCalGas and SDG&E indicated that because the Commission has reopened A.15-06-020, it is willing to engage in further Rule 12 settlement discussion. Hence, parties are strongly encouraged to continue the use of Rule 12 processes until further instructions are provided. Additional procedural guidance will be provided to you by the assigned Administrative Law Judge.⁶¹

- After the Commission reopened the curtailment proceeding on July 29, SoCalGas and SDG&E reached out to the parties discussing settlement—of whom the self-styled “Customer Coalition” is just a subset—and SoCalGas and SDG&E arranged and hosted Rule 12 settlement meetings on August 9 and August 11. But then on August 11—after our Rule 12 settlement meeting earlier in the day—Customer Coalition members Shell and AReM filed a protest to SoCalGas Advice Letter 5004 (Annual Customer Forum Report). In their protest Shell and AReM asked the Commission to approve a detailed four-part protocol for the trading of “scheduled quantities.” This protocol comes not from the Customer Forum, but instead from a confidential settlement term sheet presented by SoCalGas and

⁶¹ Given these explicit communications regarding SoCalGas and SDG&E being open to additional Rule 12 settlement discussions, the following statement from the Customer Coalition Motion is puzzling and troubling: “SoCalGas responded to the request for ADR on August 1 in an email to Administrative Law Judge Kelly Hymes, rejecting ADR *and implying it would not engage in further settlement discussions.*” Customer Coalition Motion at 6 (emphasis added).

SDG&E to Shell, AReM, and the other settlement parties during confidential Rule 12 settlement discussions in A.15-06-020.⁶²

- On August 17 (after business hours), SCE submitted the Customer Coalition's *Motion for Consideration of Winter Reliability Measures*. Moreover, SCE and the Customer Coalition submitted this motion without consulting with SoCalGas and SDG&E.⁶³
- On August 26, 2016 SCGC's counsel made a public proposal for requiring core customers to balance to actual usage at the Winter Reliability Workshop hosted by the CPUC, CEC, CAISO, and LADWP in Diamond Bar. Attendees at this Workshop included Commission decisionmakers (President Picker and Commissioner Sandoval).⁶⁴

These litigation filings and SCGC's public presentation are the only responses SoCalGas and SDG&E have received to our most recent settlement overtures, and they have effectively put an end to ongoing settlement discussions—discussions that SoCalGas and SDG&E once naively assumed were productive and on a path to continue. Settlement discussions cannot be effectively

⁶² SoCalGas' August 29, 2016 reply to Shell and AReM's protest is Attachment C to this Response. On August 31, 2016, Shell and AReM served a four-page "Response" to our Reply, even though GO 96-B Section 7.4.3 specifically says "The protestant may not reply to the utility's reply." In their "Response," Shell and AReM argue that their proposal for the trading of scheduled quantities does not reveal confidential settlement discussions because the basic concept of daily imbalance trading is not confidential, and because SoCalGas and SDG&E supposedly cannot demonstrate harm from Shell and AReM's conduct. SoCalGas and SDG&E are dismayed by the Rule 12 violations themselves, but the fact that Shell and AReM think what they did is ok is almost worse—and further demonstrates that additional settlement discussions in this proceeding are likely pointless.

⁶³ Counsel for Shell and AReM did provide telephonic notice to SoCalGas of this impending filing on the afternoon of August 17, but it was simply to inform SoCalGas that a filing would be made later that day.

⁶⁴ It is not clear to SoCalGas and SDG&E why this presentation by SCGC is not a violation of the Commission's ex parte rules. Mr. Pedersen's presentation: (1) concerned a substantive issue in a formal proceeding, (2) it took place between an interested person and a decisionmaker, and (3) it did not occur in a public hearing, workshop, or other public forum noticed by ruling or order in the proceeding, or on the record of the proceeding (Rule 8.1). Yet SCGC did not comply with the advance notice requirement of Rule 8.3 or the reporting requirement of Rule 8.4.

conducted when one side is doing anything and everything it can to circumvent and subvert the settlement process.

SoCalGas and SDG&E understand that the Customer Coalition does not speak for all of our customers, and does not include Daily Balancing Settlement signatories ORA and CAISO. However, given the multi-pronged efforts by the Customer Coalition to change this proceeding from the cooperative discussions envisioned by the Daily Balancing Settlement into litigation; given the Rule 12 violations by Customer Coalition members Shell and AReM; and given that the proposals presented by the Customer Coalition are not necessary, not appropriate, and, in the case of core balancing to actual usage, not feasible; SoCalGas and SDG&E regretfully have concluded that further settlement discussions would be pointless. Given that the only purpose of this phase of the proceeding was to facilitate settlement discussions, both the settlement discussions and the proceeding have run their course and should end.⁶⁵ The Commission should not keep open a proceeding that has outlived any potential useful purpose.

C. THE PROPOSALS PRESENTED BY THE CUSTOMER COALITION, TO THE EXTENT THEY MERIT ANY FURTHER CONSIDERATION, SHOULD BE REVIEWED IN A NEW COMMISSION PROCEEDING

As explained above, the proposals by the Customer Coalition raise complex factual questions, as well as serious policy issues regarding the relative rights and responsibilities of core, noncore, and core aggregation customers. SoCalGas and SDG&E do not believe that the proposals presented by the Customer Coalition in their Motion merit further consideration by the Commission: there is no reliability benefit to be gained by extending the provisions of the Daily

⁶⁵ The Customer Coalition has requested the resumption of settlement discussions, and SoCalGas and SDG&E have agreed to host another meeting with the Customer Coalition and other interested parties on September 5. However, given the recent conduct by the Customer Coalition, SoCalGas and SDG&E view this latest request in the same light as the Customer Coalition's earlier false statement about SoCalGas supposedly "implying it would not engage in further settlement discussions"—i.e., it may simply be a thinly-veiled effort to divert attention from conduct by the Customer Coalition that has doomed this settlement process to failure.

Balancing Settlement currently beyond November 30, 2016; trading of daily imbalances is infeasible in the short term, and a potential threat to system reliability; and the core balancing process established by the Commission in D.07-12-019 has worked well for almost a decade, and should continue.

If the Commission believes there is potential merit to any of these proposals, however, then the proposals should be considered in a new proceeding in which proper notice can be provided to all affected parties, testimony can be submitted, discovery conducted, and evidentiary hearings held. SoCalGas and SDG&E believe that our next TCAP—with an application to be filed in 2018 and a proposed effective date of January 1, 2020—would be the logical venue to consider such issues. Core, noncore, and core aggregation customers (and their representatives) all actively participate in SoCalGas/SDG&E TCAPs, and our next TCAP will likely have public participation hearings where the general public can weigh in regarding any proposals that might favor noncore customers at the expense of core customers.

D. IF THIS PROCEEDING IS NOT CLOSED, THEN RELIABILITY MEASURES CONSIDERED BY THE COMMISSION SHOULD INCLUDE TEMPORARY DAILY BALANCING REQUIREMENTS

As discussed above, SoCalGas and SDG&E believe we will be able to get through this upcoming winter without additional reliability measures. Aliso Canyon appears to be on track to come back into limited service in the near future, and the new SoCalGas and SDG&E high OFO/EFO procedures approved by the Commission in D.16-06-039, combined with the low OFO/EFO procedures authorized by the Commission in D.15-06-021, and the new tighter 8% monthly balancing tolerance approved in D.16-06-039, appear to be sufficient to help us provide reliable natural gas service this winter.

If the new high OFO procedures are not implemented for some reason, or if our high and low OFO procedures do not prove up to the task, the answer will not be extension of the

temporary Daily Balancing Settlement provisions, daily imbalance trading, or changes to current core balancing requirements. Such procedures will not be helpful to reliability in any meaningful way (and daily imbalance trading is potentially harmful). Rather, the answer, at least from our standpoint, would be adoption of temporary daily balancing, as referenced by the CPUC/CEC/CAISO/LADWP Reliability Task Force in its April 4, 2016 Aliso Canyon Action Plan.⁶⁶ Such provisions, combined with our existing OFO/EFO authority, could provide more operational certainty this winter if we end up facing unanticipated supply or capacity disruptions.

SoCalGas and SDG&E are comfortable closing this proceeding without resurrecting our earlier request for temporary daily balancing requirements. But if the Customer Coalition is bound and determined to pursue their incorrectly labelled “reliability measures” in this proceeding, and the Commission agrees that such pursuit is worthwhile, then temporary daily balancing authority—perhaps on a contingent basis that is only triggered by certain operational circumstances, and perhaps at a level different than 5%—should also be considered. Of the four proposals, temporary daily balancing is the only one that actually has the potential to enhance system reliability. Moreover, it is the *only* proposal that is actually now within the specified scope of this proceeding:

The issues to be addressed in this proceeding are expanded to include the need for temporarily establishing five percent daily balancing on the SoCalGas and SDG&E systems to address operational constraints at the Aliso Canyon storage field.⁶⁷

⁶⁶ April 4, 2016 CPUC, CEC, CAISO, and LADWP *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin* at 25-26. Tighter balancing rules for noncore customers is also one of the 10 Mitigation Measures set forth in the recent Winter Action Plan issued by this same group. See August 22, 2016 *Aliso Canyon Gas and Electric Reliability Winter Action Plan* at 20.

⁶⁷ Assigned Commissioner’s Amended Scoping Memo and Ruling at 2.

VI. CONCLUSION

For the reasons set forth above, SoCalGas and SDG&E respectfully request that the Commission deny the Customer Coalition's Motion in its entirety, and close this proceeding. If the Commission is interested in pursuing any of the issues raised by the Customer Coalition, the Commission should consider the issues in the context of a new and different proceeding so that SoCalGas, SDG&E, and all of our customers—core and noncore alike—will receive due process and a fair opportunity to have their views heard, and so that the Commission can make its determinations based on an adequate evidentiary record.

Respectfully submitted,

By: /s/ Michael R. Thorp
MICHAEL R. THORP

Attorney for:

SOUTHERN CALIFORNIA GAS COMPANY
SAN DIEGO GAS & ELECTRIC COMPANY
555 West 5th Street, GT14E7
Los Angeles, California 90013
Telephone: (213) 244-2981
Facsimile: (213) 629-9620
E-mail: MThorp@SempraUtilities.com

Dated: September 2, 2016

ATTACHMENT A

**Copy of E-mail Service of the Motion of Southern California
Edison Company (U 338-E) on Behalf of the Customer
Coalition for Consideration of Winter Reliability Measures**

Mock, Joseph

From: Legal.Admin@sce.com
Sent: Wednesday, August 17, 2016 6:01 PM
To: Mock, Joseph
Subject: [EXTERNAL] A.15-06-020: Motion Of Southern California Edison Company (U 338-E) On Behalf Of The Customer Coalition For Consideration Of Winter Reliability Measures
Attachments: A1506020-SCE Motion for Consideration of Winter Reliability Measures.pdf; A1506020-CoS-SCE Motion for Consideration of Winter Reliability Measures.pdf
Importance: High

To the official service list in A.15-06-020:

Attached is MOTION OF SOUTHERN CALIFORNIA EDISON COMPANY (U 338-E) ON BEHALF OF THE CUSTOMER COALITION FOR CONSIDERATION OF WINTER RELIABILITY MEASURES which was e-filed with the Commission's San Francisco docket office today, August 17, 2016.

(See attached file: A1506020-SCE Motion for Consideration of Winter Reliability Measures.pdf)

(See attached file: A1506020-CoS-SCE Motion for Consideration of Winter Reliability Measures.pdf)

Courtesy copies have been sent via UPS Overnight Delivery to ALJ Maribeth Bushey.

Regards,

Legal Administration
Southern California Edison Company
Telephone: (626) 302-2810
Fax: (626) 302-1935
E-mail: legal.admin@sce.com

This email originated outside of Sempra Energy. Be cautious of attachments, web links, or requests for information.

ATTACHMENT B

**CPUC Disposition Letter Approving SoCalGas Advice Letter
4978 – Temporary Revisions to Rule No. 41**

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 21, 2016

Advice Letter 4978

Sid Newsom
Tariff Manager
Southern California Gas Company
555 West 5th Street, GT14D6
Los Angeles, CA 90013-1011

Subject: Temporary Revisions to Rule No. 41, Utility System Operation

Dear Mr. Newsom:

This disposition letter approves Southern California Gas Company's (SoCalGas) Tier 2 Advice Letter (AL) 4978, which requests a temporary preauthorization of baseload contracts to support the Southern System for August and September of 2016 to help meet electric demand needs during peak summer months.

Background: The southern part of the SoCalGas gas transmission pipeline system (the Southern System) requires a minimum amount of flowing supplies to operate reliably. Prior to 2009, the utility's Gas Acquisition Department maintained minimum flowing supplies into the Southern System using core customer assets. This responsibility was transferred to the Utility System Operator (System Operator) by D.07-12-019, effective April 1, 2009.¹

D.07-12-019 also approved the following tools, which can be used by the System Operator to meet Southern System reliability requirements:

- the ability to buy and sell gas on a spot basis as needed;
- the authority and the requirement to conduct at least one annual request for offers (RFO) seeking proposals for managing minimum flows; and
- the authority to submit an Advice Letter for approval of contracts that result from an RFO or open season process.

Subsequent resolutions authorized additional tools and specified certain conditions.

One of those tools was preauthorized baseload contracts. Resolution G-3487 approving AL 4516, issued on October 7, 2013, gave the System Operator the authority to enter into baseload gas contracts in order to improve Southern System reliability provided they meet certain criteria as described in SoCalGas Rule 41. Preauthorization of baseload contracts under Rule 41 expired on

¹ As stated in Rule 41, the mission of the Utility System Operator is to maintain system reliability and integrity while minimizing costs at all times. The System Operator includes all of the departments within SoCalGas and San Diego Gas & Electric Company that are responsible for the physical and commercial operation of the pipeline and storage systems and specifically excludes the Utility Gas Procurement Department.

March 31, 2016. By Advice Letter 4970, SoCalGas requested reauthorization of Rule 41 baseload natural gas contract program, which was granted by the Energy Division on July 8, 2016.

Discussion: In AL 4978, SoCalGas essentially requests authorization to engage in the same types of baseload contracts as have been preapproved under Rule 41, except here the utility requests preauthorization of contracts:

- during August and September of 2016; and
- limited to 200,000 MMcfd of baseload contracts per month instead of the 255,000 MMcfd in winter baseload contracts.

SoCalGas publicly proposed summer baseload contracts during its June 2, 2016, Customer Forum, and this proposal was formally supported by the Southern California Public Power Authority (SCPPA) in its comments regarding AL 4970. SCPPA asserted that SoCalGas should pursue preapproval of summer baseload contracts “to maintain system reliability for the duration of Aliso Canyon’s unavailability.” (SCPPA Protest of AL 4970 at p. 2.)

In support of this AL, SoCalGas analyzed the summer of 2012 (July 1 through September 30), which it believes to be an approximate proxy for 2016 summer natural gas procurement conditions. SoCalGas found that, had 200,000 dth/d of baseload contracts been utilized rather than spot-purchases and Backbone Transportation Service (BTS) discounts, ratepayer savings of \$1.3 million could have been realized. Of that total, \$780,000 in savings would have occurred in August and September of 2012.

The uncertainty surrounding the Aliso Canyon gas storage facility increases the importance of baseload contracts during summer peak energy usage periods as well as winter peak gas usage periods.

On October 23, 2015, a major gas leak was discovered at the Aliso Canyon gas storage facility. On January 21, 2016, the Commission ordered SoCalGas to continue to reduce the amount of gas in storage until the working gas inventory at Aliso Canyon reached 15 billion cubic feet (Bcf). At this time, SoCalGas is not allowed to inject gas into any of the wells at this facility.

On January 6, 2016, Governor Brown proclaimed a state of emergency in Los Angeles County due to the prolonged duration of the natural gas leak at Aliso Canyon. Paragraph 10 of the Proclamation states that: “The California Public Utilities Commission and the California Energy Commission, in coordination with the California Independent System Operator, shall take all actions necessary to ensure the continued reliability of natural gas and electricity supplies in the coming months during the moratorium on gas injections into the Aliso Canyon Storage Facility.”

On April 5, 2016, the California Energy Commission (CEC), The California Public Utilities Commission (CPUC), California Independent System Operator (CAISO), and the Los Angeles Department of Water and Power (LADWP) released the *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin* (“Action Plan”). The Action Plan finds that “Aliso Canyon plays an essential role in maintaining both natural gas and electric reliability in the greater Los Angeles area. As a result, the facility’s limited current operations create a distinct possibility of electricity service interruptions in the coming summer months.” The

accompanying report and technical studies predict that the region faces up to 14 days this coming summer during which gas curtailments could be high enough to cause electricity service interruptions to millions of utility customers.²

Comments on AL 4978: Shell Energy North America (US), L.P. ("Shell Energy") and the Alliance for Retail Energy Markets ("AREM") filed comments on July 8, 2016,³ regarding AL 4978. The respondents commended SoCalGas' for seeking authority for baseload contracts for August and September of 2016 and agreed that summer baseload contracts would support minimum flows in the Southern System when the emergent and unanticipated Aliso Canyon unavailability could create relatively low gas supply this summer.

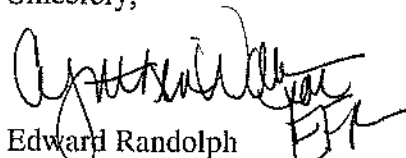
Shell and AREM further urge the Commission to encourage SoCal Gas to seek further tariff changes discussed at the June 2, 2016, Customer Forum but not included in SoCalGas' AL 4978 regarding the trading of daily imbalances.

Commission Staff may reject all or part of a protest to an AL on a variety of grounds as discussed in General Order ("G.O.") 96-B, General Rule 7.4.2. Shell and AREM do not point to any statute or Commission order that may serve as a basis for Energy Division staff to approve such additional measures regarding the trading of daily imbalances proposed in their comments on AL 4978. Energy Division rejects the portion of the Shell and AREM comments proposing additional authority through the Commission's AL process because this proposal does not appear to be supported by any statute or Commission order and would thus likely require additional, more formal proceedings to properly obtain approval.

Conclusion: With the future of Aliso Canyon uncertain, baseload contracts are critical for ensuring that a sufficient quantity of reasonably priced gas reaches the Southern System in order to fuel the generation of electricity during peak electric-use periods and avoid electric service interruptions during the summer of 2016.

Advice Letter 4978 is approved.

Sincerely,



Edward Randolph
Director, Energy Division

² See Page 3 of the *Aliso Canyon Action Plan to Preserve Gas and Electric Reliability for the Los Angeles Basin*, prepared by the California Public Utilities Commission, California Energy Commission, the California Independent System Operator, and the Los Angeles Department of Water and Power, available at: [http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Aliso%20Canyon%20Action%20Plan%20\(04-4-16\)_final%20clean.pdf](http://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/News_Room/News_and_Updates/Aliso%20Canyon%20Action%20Plan%20(04-4-16)_final%20clean.pdf)

³ By letter dated July 1, 2016, pursuant to Rule 1.3 of California Public Utilities Commission's General Order 96-B, the Energy Division shortened the protest and reply period on AL 4978 to July 8, 2016, in order to allow expeditious review and consideration of any such protests and timely approval of AL 4978 by the July 25, 2016, start of bidweek for August 2016 baseload contracts.

ATTACHMENT C

**SoCalGas Reply to Shell and AReM Protest of Advice Letter
5004 – 2016 Post-Forum Report**



Ronald van der Leeden
Director
Regulatory Affairs

555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011
Tel: 213.244.2009
Fax: 213.244.4957
RvanderLeeden@semprautilities.com

August 29, 2016

Energy Division
Attention: Tariff Unit
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

**Re: Reply to Protests of SoCalGas Advice No. (AL) 5004 – 2016 Post-Forum Report
in Compliance with Decision (D.) 09-11-006**

Dear Tariff Unit:

Pursuant to General Order (GO) 96-B, Southern California Gas Company (SoCalGas) hereby replies to the August 11, 2016 protest of Shell Energy North America (US), L.P. (Shell) and The Alliance for Retail Energy Markets (AReM) to AL 5004.¹

Background

On August 1, 2016, SoCalGas filed AL 5004 to present its Post-Forum Report regarding the 2016 Customer Forum held on June 2, 2016, in Downey, California.²

In their protest, Shell and AReM assert that SoCalGas' Post-Forum Report is incomplete because it fails to identify development of a protocol for the trading of daily imbalances as a "necessary action," and Shell and AReM request that the Commission direct SoCalGas to file an advice letter by September 1, 2016, to seek approval of the daily imbalance trading protocol described in Shell and AReM's protest.³

SoCalGas' Reply to Shell and AReM's Protest

For following reasons, the Shell/AReM protest is not well founded, and the relief requested by Shell and AReM should not be authorized by the Commission.

¹ Although Shell and AReM submitted their protest on August 11, 2016, protests to AL 5004 are actually due on August 22, 2016, with replies to all protests due five business days later, on August 29, 2016 (GO 96-B (section 7.4.3)).

² SoCalGas holds customer forums annually, and the ground rules for these forums are set forth in SoCalGas Rule No. 41.

³ Shell/AReM Protest at 1.

1. Shell and AReM's protest violates Rule 12

In their protest, Shell and AReM claim that their proposed daily imbalance trading protocol “can be implemented with limited tariff charges, with no changes to SoCalGas’ electronic bulletin board (“EBB”), and with minimal costs.”⁴ However, during the 2016 Customer Forum SoCalGas presented concepts that could not be expeditiously implemented, and would not be low cost. As explained by Slide 33 in SoCalGas’ Customer Forum presentation:

- Cost and implementation time lag from Commission authorization depends on what version of daily imbalance trading is adopted
- At minimum, implementation costs would be expected to be \$1 million or more
- Time requirements for implementation would also be expected to be extended depending on what other authorized changes to the ENVOY system are in the queue⁵

SoCalGas’ Post-Forum Report also concludes with the following statements:

SoCalGas presented, for discussion purposes, several possible options for daily imbalance trading at the Forum. Any of these proposed options would require extensive IT work, and implementation costs are expected to be at least \$1 million.⁶

Shell and AReM style their daily imbalance trading proposal as a necessary part of SoCalGas’ 2016 Post-Forum Report. But the Shell/AReM proposal actually comes directly from ongoing confidential settlement negotiations in Application (A.) 15-06-020—the application by SoCalGas and San Diego Gas & Electric Company (SDG&E) to revise their curtailment procedures.

In their Protest, Shell and AReM present a detailed four-part protocol for the trading of “scheduled quantities.”⁷ This protocol comes not from the Customer Forum, but instead from a confidential settlement term sheet presented by SoCalGas and SDG&E to Shell, AReM, and several other parties to A.15-06-020, most recently on August 9, 2016. SoCalGas will not compound the harm created by Shell and AReM’s disclosure by further discussing the confidential term sheet, the negotiations that led to it, or the negotiations regarding provisions in the term sheet that were underway when Shell and AReM filed their protest. Moreover, we will also not describe the changes to the SoCalGas/SDG&E term sheet provisions made by Shell and AReM to reflect their positions during settlement negotiations. But SoCalGas and SDG&E have retained all written A.15-06-020 settlement communications, and we believe we would be able to conclusively demonstrate to the Commission that the Shell/AReM daily imbalance trading proposal comes directly from our confidential settlement negotiations, and not from discussions at the Customer Forum.

⁴ Shell/AReM Protest at 3.

⁵ SoCalGas AL 5004, Attachment A, Appendix 2, page 33.

⁶ SoCalGas AL 5004, Attachment A, page 7.

⁷ Shell/AReM Protest at 3.

Rule 12 of the Commission's Rules of Practice and Procedure provides as follows:

No discussion, admission, concession or offer to settle, whether oral or written, made during any negotiation on a settlement shall be subject to discovery, or admissible in any evidentiary hearing against any participant who objects to its admission. Participating parties and their representatives shall hold such discussions, admissions, concessions, and offers to settle confidential and shall not disclose them outside the negotiations without the consent of the parties participating in the negotiations.⁸

SoCalGas and SDG&E did not and do not consent to the disclosure of the confidential settlement information contained in Shell and AReM's protest. For that reason alone, the Commission should deny Shell and AReM's protest.

Settlement discussions in Commission proceedings need to be governed by trust and conducted in good faith. Shell and AReM breached the trust invested in them by SoCalGas and SDG&E (and the other parties to the settlement discussions in A.15-06-020) when Shell and AReM violated their Rule 12 confidentiality obligations.

It is not good faith for a party to engage in settlement discussions while simultaneously seeking to obtain one portion of the draft settlement via a protest to an unrelated advice filing.⁹

SoCalGas and SDG&E are deeply troubled by Shell and AReM's protest. SoCalGas and SDG&E spent substantial time and effort in the context of settlement negotiations in a good faith effort to try to come up with a short-term approach to daily imbalance trading that might balance competing concerns, and might be potentially workable in the context of a broad-based settlement. To have another party to the settlement discussions turn that one portion of our confidential draft settlement term sheet into a public request for relief (after making changes that SoCalGas and SDG&E were unwilling/unable to make during settlement discussions) is truly disappointing. In denying Shell and AReM's protest, the Commission should explain that it expects parties to Commission proceedings to conduct themselves in good faith, and that it will not put up with further Rule 12 violations by Shell and AReM.

2. The relief requested by Shell and AReM would contravene GO 96-B

As explained above, Shell and AReM want the Commission to direct SoCalGas to file an advice letter to seek approval of the daily imbalance trading protocol described in Shell and AReM's protest. This proposal is contrary to GO 96-B.

In A.15-06-020, Shell, AReM, and several other parties have recently submitted a motion requesting that the Commission adopt several proposals, including daily imbalance trading.¹⁰

⁸ Rule 12.6.

⁹ The most recent Rule 12 settlement conference in A.15-06-020 was held on August 11, 2016—the morning of the day Shell and AReM submitted their protest to AL 5004. At the end of both the August 9 and August 11 settlement meetings, SoCalGas and SDG&E had the impression that settlement discussions would be continuing.

¹⁰ A.15-06-020, August 17, 2016 Motion of Southern California Edison Company on Behalf of the Customer Coalition for Consideration of Winter Reliability Measures.

Even if the relief proposed by Shell and AReM in their protest of AL 5004 would otherwise be appropriate (it is not), it would be improper for SoCalGas to submit an advice filing seeking relief that is already being sought by other parties in an active Commission proceeding.

GO 96-B provides that an advice filing may be protested on several grounds, including improper service, relief that would violate statute or Commission order, material errors or omissions, and “relief requested in the advice letter is pending before the Commission in a formal proceeding.”¹¹ In addition, “the Industry Division will . . . reject without prejudice an advice letter whose disposition would require an evidentiary hearing or otherwise require review in a formal proceeding.” Pursuant to these provisions in GO 96-B, an advice filing by SoCalGas seeking approval of a daily imbalance trading imbalance protocol would need to be summarily rejected by the Energy Division.

3. Shell and AReM do not present an accurate picture of discussions during the SoCalGas Customer Forum

Shell and AReM assert that during the 2016 SoCalGas Customer Forum, “consensus was reached that a protocol for trading daily imbalances is ‘necessary’ and should be implemented expeditiously.”¹² This statement is false.

As explained by SoCalGas in its Post-Forum Report, we “did *not* develop a consensus daily imbalance trading protocol to present in this Post-Forum Report,” and “these proposals need to be more fully developed, and that this topic is more appropriately addressed outside of the post-Forum advice filing process.”¹³ SoCalGas included the topic of daily balancing in its Customer Forum presentation because of customer interest, not because we support it or believe that it will be good for our system. As noted above, SoCalGas presented—for discussion purposes only—several possible options for daily imbalance trading that could potentially be considered at some point in the future. SoCalGas made it clear that we were not making a proposal, and we pointed out during the Forum that any of the options presented would require extensive and time-consuming information technology work, with implementation costs expected to be at least \$1 million.¹⁴

No actionable imbalance trading proposal came out of the Customer Forum, and certainly no consensus was reached that such a proposal would be necessary. To the contrary, SoCalGas does not support daily imbalance trading, at least at the present time. We believe that such a process could dilute the incentive for customers to comply with low and high OFO/EFO requirements, thereby making the system less reliable—and we are facing a winter in which reliability will be particularly crucial.

4. Shell and AReM do not present an accurate view of the Customer Forum process itself

Shell and AReM assert that tariff changes to implement daily imbalance trading are a necessary result of the SoCalGas Customer Forum process. As with so much else in the Shell/AReM protest, this assertion is not well founded.

¹¹ GO 96-B General Rule 7.4.2.

¹² Shell/AReM Protest at 2.

¹³ SoCalGas Post-Forum Report at 6-7 (emphasis added).

¹⁴ SoCalGas Advice No. 5004, Attachment A, Appendix 2, page 33.

SoCalGas' Rule No. 41 provides the following direction regarding tariff changes coming out of the Customer Forum process:

The Utility shall file each post-Forum report resulting from the Forum with the CPUC by Advice Letter no later than 60 days after conclusion of the relevant Forum. The Utility shall also submit any tariff changes proposed in the Forum *and agreed-to by the Utility* for the CPUC approval by Advice Letter no later than 60 days after conclusion of each Forum.¹⁵

The Customer Forum process was established to develop constructive dialogue and information exchange, not to require SoCalGas to make tariff changes against its will. As a Commission-regulated utility with public service obligations, SoCalGas must be able to control what goes into its tariffs. Only utilities can file applications and advice filings to change their own tariffs, and the Customer Forum process described in Rule No. 41 does not alter this fundamentally important fact. Per the Rule No. 41 language set forth above, only tariff changes "agreed to by the Utility" will be submitted to the Commission for approval. And SoCalGas most certainly has not agreed to the tariff changes being promoted by Shell and AReM.¹⁶

5. Shell and AReM's arguments in favor of customer daily imbalance trading are not well founded

Shell/AReM argue that customer daily imbalance trading would not harm reliability because they are just "an accounting process."¹⁷ SoCalGas respectfully disagrees. Yes, on one level daily imbalance trading would be an accounting process to the extent the process results in accounting entries. But it would be a process with potential real-world consequences because customers would know that they have an opportunity to trade out of any imbalances incurred on low and high OFO/EFO days—potentially leaving SoCalGas, SDG&E, and our other customers vulnerable to flowing supply shortfalls and over-pressurizations.

SoCalGas and SDG&E have backed away, at least for the time being, from their request for daily balancing requirements. Instead we hope to weather the upcoming winter using our operational capabilities in conjunction with low and high OFO/EFO requirements. Now is not the time to potentially dilute the effectiveness of such OFO/EFO requirements by requiring SoCalGas to implement customer daily imbalance trading.

Finally, no matter whether Shell/AReM or SoCalGas are correct regarding the factual issue of whether customer daily imbalance trading would dilute the effectiveness of SoCalGas' low and high OFO/EFO requirements, a protest to an advice filing that does not propose daily imbalance trading is most definitely not an appropriate vehicle to resolve the issue. A factual

¹⁵ SoCalGas Rule No. 41(26) (emphasis added).

¹⁶ In addition, the Shell/AReM protest will almost certainly lead to more limited discussions in future Customer Forums. Now that Shell and AReM have demonstrated that any new concept discussed at the forum, no matter how preliminary or infeasible, can result in demands that we implement the concept post haste, SoCalGas has no choice but to limit forum conversations to the information specified in Rule No. 41. It is unfortunate that the conduct of one or two parties can potentially put an end to an otherwise useful less-structured information exchange process.

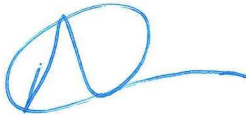
¹⁷ Shell/AReM protest at 3.

issue such as this needs to be the subject of an application, with testimony and evidentiary hearings.

Conclusion

For the reasons set forth above, SoCalGas respectfully requests that the Commission disregard Shell and AReM's protest, and approve SoCalGas' 2016 Post-Forum Report.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Ronald van der Leeden', with a stylized, looping design.

Ronald van der Leeden
Director- Regulatory Affairs

Cc: John W. Leslie, Dentons US LLP
All Parties on Service List in A.15-06-020